



SENATE BANKING COMMITTEE

“CARES ACT OVERSIGHT OF TREASURY AND THE FEDERAL RESERVE: BUILDING A RESILIENT ECONOMY”

November 30, 2021 – 10:00 AM

OVERVIEW

On Tuesday, November 30, the Senate Banking Committee held a hearing titled, “CARES Act Oversight of Treasury and the Federal Reserve: Building a Resilient Economy.” During the hearing, Senators and witnesses discussed: the Build Back Better Act; inflation; digital assets; the debt ceiling; labor force participation rate; climate risk exposure; sanctions; and supply chain disruptions.

OPENING STATEMENTS

- [Chairman Sherrod Brown](#) (D-OH)
- [Ranking Member Pat Toomey](#) (R-PA)

WITNESS PANEL

- [The Honorable Janet L. Yellen](#), Secretary, Department of the Treasury
- [The Honorable Jerome H. Powell](#), Chairman, Board of Governors of the Federal Reserve System

QUESTION AND ANSWER SUMMARY

Build Back Better Act

Chairman Sherrod Brown (D-OH) asked Secretary Yellen if the Infrastructure Investment and Jobs Act and the Build Back Better Act will “bring costs down for Americans.” Secretary Yellen stated the Build Back Better Act “contains support for households to help address the most burdensome and rapidly rising costs that they face,” such as the cost of child and elderly care, education, workforce training, and prescription drugs. She argued decreasing costs in these areas will help make rent more affordable.

Senator John Kennedy (R-LA) expressed concern the Build Back Better Act will “require the American people to incur substantial debt.” He then asked Secretary Yellen about President Biden’s threshold of “too much debt.” Secretary Yellen disagreed the Build Back Better Act will contribute to the national debt, and she highlighted the Congressional Budget Office’s (CBO) comprehensive review of the legislation that found it is “essentially” fully paid for. She argued “no single metric is appropriate for evaluating whether or not the level of debt in an economy is reasonable or unsustainable.”

Secretary Yellen asserted because of very low interest rates, it is “appropriate to look at the burden of debt on society, which is better measured by the real interest burden of the debt.”

Senator Chris Van Hollen (D-MD) asked Secretary Yellen about the Build Back Better Act’s 15 percent global minimum tax. Secretary Yellen argued there has been a race to the bottom because “countries have been engaged in a race to try to attract more multinational firms to do business in their countries by cutting corporate tax rates.” She explained corporate taxes in the U.S. have “fallen to around one percent gross domestic product (GDP) as a consequence of this.” She argued raising the corporate minimum tax to 15 percent from 10.5 percent will benefit “domestic firms that right now are on an unfair, unlevel playing field” because multinational corporations are shifting their activities abroad to lower tax jurisdictions.

Senator Bill Hagerty (R-TN) expressed concern over the Build Back Better Act giving more authority and a larger budget to the Internal Revenue Service (IRS) to “snoop on more Americans, audit more Americans, and invade our privacy.” Secretary Yellen responded there is an estimated tax gap of \$7 trillion in uncollected taxes, and because the IRS has been “starved of resources over the last decade,” it is unable to “conduct meaningful audits” of high-income individuals, complex partnerships, or corporations. She concluded the IRS must ensure “that the wealthiest individuals and corporations comply with the tax laws and pay their fair share.”

Senator Tim Scott (R-SC) asked Secretary Yellen if she still supports increased IRS bank reporting requirements in the Build Back Better Act. Secretary Yellen answered in the affirmative, stating “it is important that the IRS has visibility into opaque income streams” to improve tax compliance. She continued that Treasury worked “carefully with Congress to narrow the scope” of the reporting requirement, especially to exempt wage earners and federal beneficiaries. She explained the reporting requirement would contain the aggregate inflows and outflows of an account each year. She alleged this reporting requirement burden would be “minimal” on financial institutions and the low dollar threshold in the reporting requirement is intended to “make evasion more difficult by opening multiple accounts.”

Senator Jon Tester (D-MT) asked Secretary Yellen how Congress should address housing unaffordability exacerbated by the COVID-19 pandemic. Secretary Yellen agreed the pandemic “dramatically impacted the income of many ... especially low-income workers that already experienced tremendous challenges by the affordability, or lack thereof, of housing.” She highlighted the Emergency Rental Assistance fund to help individuals remain in their homes, in addition to the Build Back Better Act which will invest in affordable housing production. Senator Tester asked if the Build Back Better Act will make “significant investments” in the supply of affordable housing. Secretary Yellen responded it will invest \$150 billion to increase the supply of affordable housing.

Inflation

Chairman Brown asked Chair Powell if inflationary pressures will subside as the negative effects of the pandemic continue to lessen. Chair Powell responded that “generally” the current higher prices are a result of “supply and demand challenges with origins in the pandemic and reopening of the economy.” However, he acknowledged that price increases “have spread more broadly in recent months,” asserting the “risk of higher inflation has increased.”

Ranking Member Pat Toomey (R-PA) asked Chair Powell if the current inflation is “transitory.” Chair Powell explained the Federal Reserve’s (“Fed”) definition of transitory inflation is “that it will not leave a permanent mark in the form of higher inflation.” However, he expressed frustration with the term “transitory,” arguing “it is probably a good time to retire that word and try to explain more clearly what we mean.”

Senator Mike Crapo (R-ID) asked Chair Powell if the current inflation is a “serious threat our economy.” Chair Powell reiterated the “threat of persistently higher inflation has grown.” However, he stated his “baseline expectation is still that inflation will move back down over the course of next year.” He added the Fed’s policy will “continue to adapt” in response to economic conditions. Senator Crapo asked if inflationary pressures will linger “well into next year.” Chair Powell answered in the affirmative, adding he expects inflation to persist “through the middle of next year.”

Senator Kyrsten Sinema (D-AZ) asked to what extent inflation can be attributed to global supply chain disruptions. Secretary Yellen stated, “most countries” are experiencing higher inflation because of “huge shifts away from spending on services ... and a shift toward goods that need to be produced” and imported, in addition to a decrease in the labor supply. Chair Powell added that supply chain issues impact “headline inflation.”

Digital Assets

Chairman Brown expressed concern that stablecoins are “controlled by opaque private companies.” He then asked about the risks associated with private control of these digital assets. Secretary Yellen stated stablecoins can provide greater efficiencies in the payment system “if they are adequately regulated.” She then highlighted a recent report published by the President’s Working Group on Financial Markets (PWG) that found “significant risks associated with these currencies,” such as risks to the payment system, runs, and concentration of economic power. She stated the PWG has asked Congress to implement a regulatory framework for stablecoins to ensure consumer protections, in addition to ensuring they are on a level playing field as other financial services providers such as banks.

Ranking Member Toomey asked Secretary Yellen why the PWG recommended all stablecoins be regulated like a depository institution. Secretary Yellen explained all stablecoins “have the potential to be used as a means of payment regardless of how they are used at the outset when they are introduced.” She continued that because stablecoins have a stable value relative to a fiat currency, they are most similar to what depository institutions guarantee.

Senator Crapo asked Chair Powell when the Fed’s report on digital currencies will be published. Chair Powell responded it will be published “very soon ... certainly in the coming weeks.”

Debt Ceiling

Senator Crapo asked Secretary Yellen to expound on Treasury’s current projection that it may need to use extraordinary measures after December 15 if the debt ceiling is not raised. Secretary Yellen responded she has a “high degree of confidence that Treasury will be able to finance the U.S. government through December 15.” However, she alleged there “would be scenarios in which Treasury would not have sufficient funds to continue to finance the operations of the U.S. government beyond that date.” She concluded there are also scenarios in which Treasury can finance the government past December 15, but argued “it is important for Congress to recognize that we may not be able to and therefore [Congress should] raise the debt ceiling expeditiously.”

Labor Force Participation Rate

Senator Jack Reed (D-RI) asked Chair Powell why the labor force participation rate has remained “depressed,” and how Congress and the Biden Administration can increase participation. Chair Powell acknowledged it is “very surprising” that labor force participation rates have remained low even after the expiration of enhanced unemployment insurance, school reopenings, and vaccine rollouts. He asserted a “big part” of the low labor force participation rate is “clearly linked to the ongoing pandemic” because individuals are still hesitant to return to work, especially because of the possibility of schools reclosing. He added that the “risk of persistent high inflation is also a major risk to getting back to a [strong] labor market.”

Federal Reserve Asset Purchases

Senator Mark Warner (D-VA) asked Chair Powell when the Fed will taper its asset purchases. Chair Powell claimed the Fed has not made a decision yet, but he stated because the “economy is very strong and inflationary pressures are high ... it is therefore appropriate, in my view, to consider wrapping up the paper of our asset purchases.” He added the Federal Open Market Committee (FOMC) has an upcoming meeting where it will discuss asset purchases based on a new labor market and inflation report and a “better sense of the new COVID variant.”

Senator Jon Ossoff (D-GA) asked why the Fed has continued its bond purchases. Chair Powell asserted the bond purchases have supported economic activity. However, he agreed the need for the Fed to purchase bonds has “clearly diminished as the economy has continued to strengthen,” in addition to “significant inflationary pressures.” Senator Ossoff then asked if the Fed’s quantitative easing and bond purchases have worsened “inequality by driving up equity and asset valuations and shifting more cash onto the balance sheets of major financial institutions.” Chair Powell responded that asset purchases “work through much the same channels as regular interest rate changes.” Additionally, he argued Senator Ossoff’s

assertion that this method contributes to inequality “does not bear up under scrutiny” because “companies are experiencing lower, longer-term rates that enables them to finance their operations.” He stated, “the idea that [asset purchases] promote inequality is not well supported ... and community groups and labor unions never come in and complain about quantitative easing.”

Climate Risk Exposure

Senator Elizabeth Warren (D-MA) asked Chair Powell if he would support a proposal by the Vice Chair of the Fed to impose a new capital requirement to incorporate banks’ exposure to climate risk. Chair Powell responded he would “have to see what you are really specifically talking about.”

Sanctions

Senator Hagerty asked Secretary Yellen if the Biden Administration has “all the authority [it] need[s] from Congress to deter and, if necessary, to punish Putin if Russia invades Ukraine.” Secretary Yellen responded the Administration has the authority to impose sanctions, and she highlighted President Biden’s Executive Order (EO) that expanded Treasury’s authority to impose sanctions. Senator Hagerty then asked Secretary Yellen about the Biden Administration’s plan to respond to the situation at the Ukraine border. Secretary Yellen responded the Administration is “very cognizant of what is happening and are involved in discussions about what the appropriate set of steps will be.” Senator Hagerty then encouraged Secretary Yellen to “do what you need to, to put significant biting financial pressure” on Putin’s regime. Secretary Yellen agreed, adding “if that is appropriate.”

Supply Chain Disruptions

Senator Catherine Cortez Masto (D-NV) asked Secretary Yellen about the Biden Administration’s current initiatives to address supply chain disruptions. Secretary Yellen highlighted the Supply Chain Disruption Task Force’s work to “identify places where the White House could make a contribution.” Additionally, she noted recent progress at ports, including the Ports of Los Angeles and Long Beach where they are now open 24/7 and expediting the movement of containers away from the ports. She added the Administration is “looking at ways” to work with states and cities to expedite commercial drivers licensing to raise the supply of truck drivers. Finally, she emphasized the need to increase vaccinations and boosters to “get the pandemic under control so that demand patterns shift back toward services and away from goods.”

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Please click [here](#) for the archived hearing.